

Advertorial

Elwood

Caroline Poon
45-47 Addison Street
Elwood Victoria 3184
Phone 03 9531 666
caroline@madabayside.com.au



The Health Wealth Specialists
www.mada.com.au

Kew

Michael Waycott
Suite 13, 828 High Street
Kew Victoria 3101
Phone 03 9819 7308
michael@mada.com.au

Making the Most of Salary Sacrifice Arrangement

Many of our clients work in the public hospital system either exclusively or with a mix of private practice work. You should ensure that you are making the most of salary sacrifice arrangements being offered by public hospitals by choosing benefits that are non deductible to you and thus worth twice as much to you.

An example may help. Say you have \$5,000 of private school fees to pay which are non deductible for tax purposes. If you pay these fees yourself, you will have to earn approximately \$10,000 in order to pay them as you lose nearly 50% of the \$10,000 in tax. On the other hand, if the hospital pays this for you, it simply pays you \$5,000 less i.e. it takes \$5,000 off your gross salary (being earnings before tax is taken out). Therefore comparing the two alternatives for paying the non-deductible \$5,000 bill, you are better off if the hospital pays the \$5,000 for you.

Salary sacrifice benefits vary from hospital to hospital and generally you can only salary sacrifice up to one third of your salary up to a maximum cost benefit limit of \$8,755 per annum (grossed up benefits that appear on your PAYGW payment summary are \$17,000). Note that this limit applies per hospital. Many of you work for two or more different public hospitals so you can salary sacrifice \$8,755 of non deductible debt per hospital. Typical non deductible benefits include paying off the mortgage on a non deductible home loan, paying your rent, private credit cards, private school fees, private health fund fees or car parking at the hospital.

If you don't have non deductible expenses or are not using all of the \$8,755 limit, look at costs that are largely non-deductible such as your utility bills i.e. gas and electricity or your home telephone bill.

On top of the threshold of \$8,755 available to you, there is often the opportunity to salary sacrifice a number of other benefits and still pay no fringe benefits tax:

- minor meal entertainment benefits i.e. the salary packaging organization pays your restaurant bills via your personal credit card.
- Laptops or personal digital assistants (one per annum). Here you get a double deduction as you can then depreciate such items in your personal income tax return.
- Total and Permanent Disability, life and trauma insurance premiums provided you have them structured correctly.
- Superannuation.

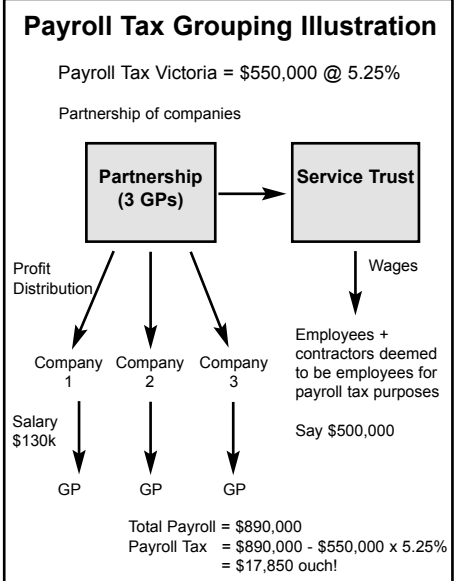
Just a little trick to watch here, the maximum contribution base for 9% SGC superannuation purposes is \$134,880 i.e. 9% super is capped at \$12,139. If you get (say) \$100,000 plus 9% super from the hospital and decide to sacrifice (say) \$30,000, the hospital may have a policy not to give you the 9% SGC on that sacrificed amount i.e. \$30,000 x 9%, \$2,700 (as by law they are not obliged to) but this is something you will need to negotiate when you are signing your contract with the hospital.

Payroll Tax: Grouping Provisions

One problem we have encountered in the past few weeks is the failure to take into consideration the grouping provisions for payroll tax purposes and the Revenue Ruling in relation to management fees paid between entities. It should be noted that such entities i.e. the partnership or associateship and the service entity are grouped for payroll tax purposes.

We have encountered 3 times in the last week a set of practice financials that the practice accountant in all instances had failed to take into consideration this very

rule. In all situations the practice had a structure consisting of a medical partnership made up of companies (acting as partners for the principal GPs) and the practice service entity. In all instances there was a service trust relationship with a service agreement in place between the practice partnership and the service entity meaning both entities were grouped for payroll tax purposes. Accordingly the salaries and superannuation paid to the partners from their incorporated medical practices were grouped with the total salaries and super paid from the practice service entity. An example illustration of this is shown below.



As you can see from the illustration the practice has a payroll tax liability of \$17,850. This is a cost that can be legitimately minimised and our firm has developed a way to reduce a practice's payroll tax liability through the right advice on how structure the practice, coupled with the correct flow of funds and properly worded associate agreements. This structure kills two birds with one stone as it also alleviates the need to implement the Tax Office's safe harbour bench mark rates on mark-ups on service fee payments.

The contents of these articles are general in nature and are not advice that applies to any particular client situation. Whilst every care has been taken in preparing, specific advice should be obtained before proceeding with any suggestions or recommendation made in these articles.